

The Mosaic Company

Company update

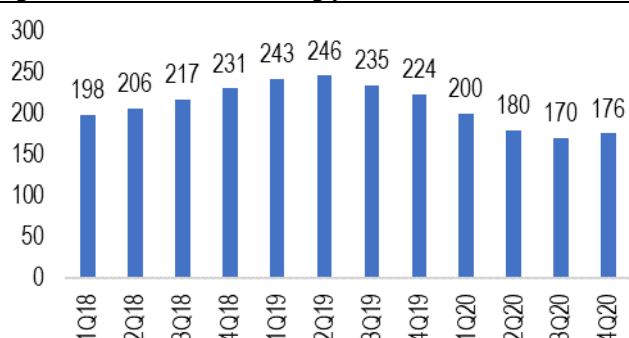
- The Mosaic Company reports earnings per share of \$1.75 and net income of \$666.1mn for FY2020.** The company's adjusted EBITDA reached \$1.56bn. The strong DAP price move by 36% YoY in 4Q20 helped the company to show 42% YoY net sales growth in phosphates, while potash segment sales growth by 42% YoY was driven by an 86% increase in MOP sales volumes in 4Q20. In the US, the restricted supply of Russian and Moroccan imports contributed to the DAP price increase. Adjusted EBITDA reached \$115mn (up 47% YoY) in Mosaic Fertilizantes, \$169mn (up 12% YoY) in potash, and \$266mn in phosphates in 4Q20 up from \$8mn in 4Q19. The operating rate in the phosphate segment was 86% in 4Q20 compared to 79% a year ago. The company reported net sales of \$8,682mn in 2020, down 2.5% YoY, and gross profit improvement by 18.7% YoY to \$1,065mn. The tightening supply and demand in both potash and phosphate markets in 2H20 resulted in a 15% YoY selling volumes increase by Mosaic Fertilizantes, while potash volumes grew by 20% YoY in 2020. The company delivered \$300mn in transformation savings in 2020, including the shift of potash production from Colonsay to Esterhazy K3 facility and cost savings in Brazil. The gross margin in the potash segment was \$50 per ton in 2020 compared to \$79 per ton in 2019, while MOP selling price declined 23% YoY to \$181/t in 2020. Favorable crop pricing and foreign currency rates were beneficial for Brazilian farmers.
- We adjust our forecast and indicative price range to \$32.1-36.9 per share.** Mosaic expects the positive market dynamics to continue through 2021. The global demand for crops and economic recovery will drive the demand for fertilisers in the US and other countries. The company expects to realize a \$40 to \$50 per ton improvement in average realized phosphate prices and a \$20 to \$25 per ton in average realized potash prices. The company plans a \$1.1bn capex in 2021. In January 2021, Mosaic reported phosphate revenue up 70% YoY to \$337m, potash revenue down 11% YoY to \$151mn, and Mosaic Fertilizantes revenue down 7% YoY to \$262mn. The sales volume of phosphates increased 24% YoY and down 14% for potash in January 2021. We update our forecast, given a stronger market outlook and a better cost profile of the company. Our DCF valuation for the company under 7.7% WACC provides an indicative price range of \$32.1-36.9 per share on a 12-month horizon. The company may see stronger phosphate and potash price environment, depending on India and China markets' developments. We rate the stock Hold. The estimated global DAP/MAP/NPS/TSP demand is 76-78mt in 2021 compared to 75.5mt in 2020. Global potash demand is estimated at 68-70mt for 2021 versus 68mt in 2020. Mosaic trades at 6.2-6.6x EV/EBITDA'21-23 and 13.4-14.2x P/E'21-23. The MOS discount to a peer group is above 30% based on P/E and EV/EBITDA.

Report date:	03 March 2021
Main exchange	NYSE
Rating	NR
Price, \$	31.2
MCap, \$ mn	11,908
EV, \$mn	15,912
Free float, %	99.6%

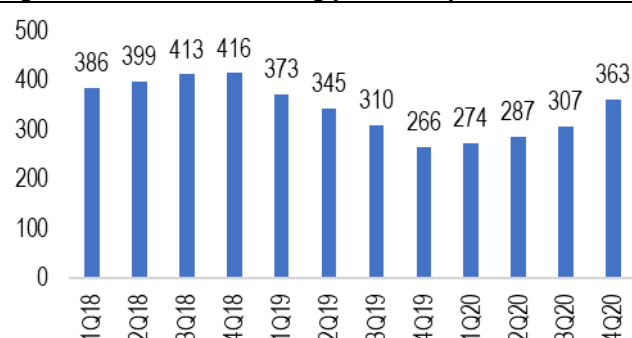
Description:
Mosaic is the world's largest publicly traded phosphate producer and top-3 global potash producer, with an asset base located in North and South America. The company has 25% in Ma'aden phosphate project (MWSPC Saudi Arabia).

*as of 02/03/2021

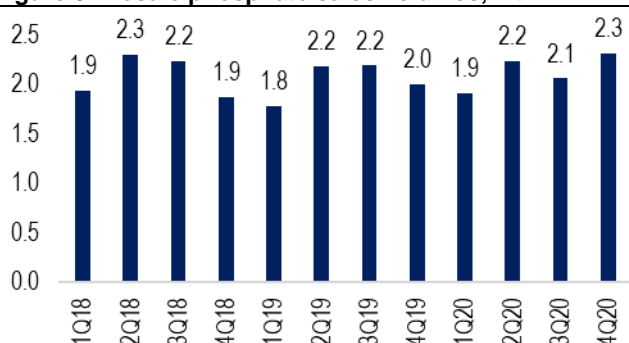
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Figure 1. Mosaic MOP selling price, fob mine, \$/t

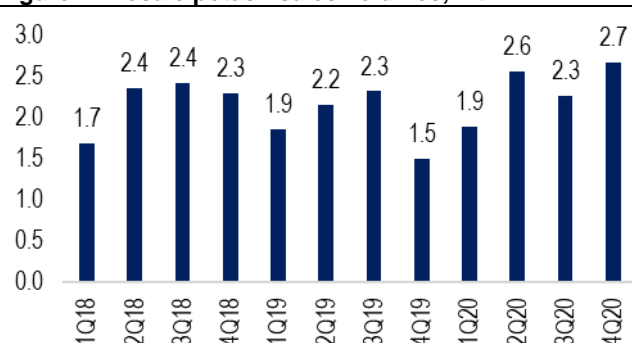
Source: company data

Figure 2. Mosaic DAP selling price, fob plant, \$/t

Source: company data

Figure 3. Mosaic phosphate sales volumes, mt

Source: company data

Figure 4. Mosaic potash sales volumes, mt

Source: company data

Figure 5. Mosaic consolidated profit and loss statement, \$mn

\$mn	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Net sales	7163	7409	9587	8906	8682	8911	9629	10198	10609	11015	11452
Cost of goods sold	6353	6567	8089	8009	7617	7729	8184	8469	8763	9068	9382
Gross margin	810	843	1498	897	1065	1182	1445	1729	1846	1947	2069
SG&A	304	301	341	354	372	340	412	436	454	471	490
Restructuring expense, impairment and other	0	0	0	1462	0	0	0	0	0	0	0
Other operating expenses	187	76	229	176	281	288	311	329	343	356	370
Operating earnings	319	466	928	-1095	413	554	722	963	1049	1120	1209
Interest (expense) income, net	-112	-138	-166	-183	-181	-193	-193	-193	-193	-193	-193
Foreign currency transaction gain (loss)	40	50	-192	20	-64	0	0	0	0	0	0
Other (expense) income	-4	-4	-19	2	13	0	0	0	0	0	0
Earnings from consolidated companies before income tax	242	374	552	-1256	181	361	529	770	856	927	1016
Provision for income taxes	-74	495	77	-225	-579	72	106	154	171	185	203
Earnings from consolidated companies	317	-121	474	-1031	759	289	423	616	685	741	813
Equity in net earnings (loss) of nonconsolidated companies	-15	17	-5	-59	-94	-36	-52	-76	-85	-92	-100
Net earnings including noncontrolling interests	301	-104	470	-1091	666	253	371	540	600	650	712
Less Net attributable to noncontrolling interests	-3	3	0	-23	-1	0	0	0	0	0	-1
Net earnings attributable to Mosaic	298	-107	470	-1067	666	253	370	540	600	649	712
Diluted weighted average number of shares outstanding, mn	352	351	386	384	381	381	381	381	381	381	381
EPS	0.8	-0.3	1.2	-2.8	1.7	0.7	1.0	1.4	1.6	1.7	1.9

Source: company data, Hypothesis Research

Figure 6. Mosaic balance sheet, \$mn

\$mn	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Current assets										
Cash and cash equivalents	2154	848	519	574	789	1057	1495	2015	2567	3155
Receivables, net	643	839	804	881	904	977	1035	1077	1118	1162
Inventories	1547	2270	2076	1739	1765	1869	1934	2001	2071	2142
Other current assets	273	281	319	327	336	363	384	399	415	431
Total current assets	4617	4237	3718	3521	3794	4266	4848	5492	6170	6891
Property, plant and equipment, net	9712	11747	11690	11854	12036	12003	11996	12015	12055	12118
Investments in nonconsolidated companies	1090	827	764	673	673	673	673	673	673	673
Goodwill	1694	1708	1157	1173	1150	1127	1104	1082	1060	1039
Deferred income taxes	255	344	515	1179	1211	1308	1385	1441	1496	1556
Other assets	1268	1258	1454	1389	1389	1389	1389	1389	1389	1389
Non-current assets	14017	15882	15580	16269	16458	16499	16548	16600	16674	16774
Total assets	18633	20119	19299	19790	20252	20765	21395	22092	22844	23665
Current liabilities										
Short-term debt	6	12	42	0	66	67	68	69	70	71
Current maturities of long-term debt	344	26	47	504	0	0	0	0	0	0
Structured accounts payable arrangements	386	573	741	640	649	688	712	736	762	788
Accounts payables	541	781	680	769	780	826	855	885	916	947
Accrued liabilities	754	1093	1082	1233	1143	1233	1299	1369	1441	1517
Total current liabilities	2031	2484	2592	3147	2639	2814	2934	3059	3188	3323
Long-term debt, less current maturities	4878	4492	4526	4074	4824	4824	4824	4824	4824	4824
Deferred income taxes	1117	1081	1041	1061	1061	1061	1061	1061	1061	1061
Other noncurrent liabilities	968	1459	1773	1754	1754	1754	1754	1754	1754	1754
Equity										
Total Mosaic stockholders' equity	9618	10397	9186	9581	9796	10129	10630	11192	11803	12477
Non-controlling interests	22	207	182	174	178	184	193	203	214	226
Total equity	9639	10605	9368	9755	9974	10312	10823	11395	12017	12703
Total liabilities and equity	18633	20119	19299	19790	20252	20765	21395	22092	22844	23665

Source: company data, Hypothesis Research

Figure 7. Fertiliser stocks comparable multiples

Company Name	MktCap, \$ mn	EV, \$mn	P/E Fwd 1Y	P/E Fwd 2Y	P/E Fwd 3Y	EV/ EBITDA 1Y fwd	EV/ EBITDA 2Y fwd	EV/ EBITDA 3 fwd	EV/ Revenues 1y fwd	EV/ Revenues 2y fwd	EV/ Revenues 3y fwd
Mosaic	11,839	16,017	13.7	14.2	13.4	6.6	6.6	6.2	1.5	1.5	1.5
Nutrien	31,671	41,577	21.4	19.0	17.1	9.4	8.9	8.5	1.9	1.8	1.8
CF Industries	9,853	15,812	21.0	21.4	20.3	9.6	9.9	10.2	3.4	3.4	3.4
Yara International	13,469	16,479	13.3	12.5	12.5	7.0	6.8	6.6	1.3	1.3	1.2
ICL Israel Chemicals	7,576	10,150	16.6	15.5	15.1	8.4	8.2	7.3	1.8	1.7	1.6
PhosAgro	7,099	9,275	7.2	7.4	7.6	6.6	6.7	6.8	2.3	2.3	2.4
K&S	2,218	5,766	NaN	102.6	28.8	10.6	9.3	9.5	1.3	1.5	1.8
SQM	14,010	14,908	95.8	49.4	36.0	25.9	20.4	15.0	8.3	6.9	5.7
FMC	13,649	16,371	14.8	13.1	11.5	11.9	11.0	10.2	3.3	3.1	3.0
Intrepid Potash	415	431	152.4	37.2	29.8	9.8	9.5	8.1	1.8	1.8	2.0
Average			39.6	29.2	19.2	10.6	9.7	8.8	2.7	2.5	2.4

Source: Refinitiv

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